

Message Text

CONFIDENTIAL

PAGE 01 SANTO 01467 291319Z
ACTION ARA-10

INFO OCT-01 ISO-00 SS-15 EB-08 AID-05 CIAE-00 INR-07

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FM AMEMBASSY SANTO DOMINGO
TO SECSTATE WASHDC 128

CONFIDENTIAL SANTO DOMINGO 1467

E.O. 11652: GDS

TAGS: PGOV, EAID, DR

SUBJ: MEETING WITH PRESIDENT BALAGUER: PIDAGRO II

REF: SANTO DOMINGO 1439

1. DURING MEETING WITH PRESIDENT BALAGUER DESCRIBED REFTEL, I OBSERVED THAT PRESS HAD REPORTED DOMINICAN AGREEMENT WITH IDB ON PIDAGRO II LOAN, MAINLY FOR RURAL CREDIT, WHICH MAINTAINED THE PROVISION OF A MINIMUM OF RD\$2,000 PER LOAN. I RECALLED THAT DURING A PREVIOUS CONVERSATION WITH HIM I HAD EXPRESSED CONCERN OVER THE MINIMUM FOR IT RISKED DEPRIVING THE VERY SMALL AND POOREST FARMERS OF BADLY NEEDED CAPITAL. I CONTINUED THAT THE US CONGRESS WAS INSISTENT UPON OUR MAKING A MAJOR EFFORT TO ENSURE THAT LOANS WENT TO THE VERY POOR AND ALTHOUGH WE DID NOT CONTROL THE IDB, APPROXIMATELY SEVENTY PERCENT OF IDB FSO LOANS CONSISTED OF US FUNDS.

2. PRESIDENT BALAGUER REPLIED THAT AS YET THE PROPOSED LOAN HAD NOT BEEN FORMALLY PRESENTED TO HIM FOR APPROVAL AND THEREFORE AGREEMENT HAD NOT FORMALLY BEEN REACHED. ACKNOWLEDGING OUR PREVIOUS CONVERSATION, HE SAID HE HAD MET WITH HIS ADVISORS REGARDING THE LOAN AND HAD RECEIVED ASSURANCES FROM THE BANCO DE AGRICOLA THAT SUFFICIENT BANK FUNDS WOULD BE AVAILABLE FOR THE EFFECTIVE DEMAND FOR SMALL CONFIDENTIAL

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FARMERS WHO WOULD BE ABLE TO BORROW UP TO RD\$2,000, PROVIDED THEY QUALIFIED. WITH THIS ASSURANCE HE FELT SOMEWHAT LESS CONCERNED OVER THAT PARTICULAR PROVISION OF THE PROPOSED LOAN.

3. I URGED THAT WHEN THE LOAN DOCUMENTS WERE PRESENTED TO HIM FORMALLY THAT HE RESTUDY THE ISSUE. IF FUNDS FOR THE SMALL FARMER WERE GOING TO BE AVAILABLE ANYWAY, I SAID THAT

I SAW NO REASON TO INSIST UPON A MINIMUM. IN PRACTICE IT WOULD BE UNNECESSARY, YET HE SAW THE POLITICAL RISK OF BEING CHARGED WITH HAVING APPROVED A LOAN THAT DISCRIMINATED AGAINST THE SMALL FARMER. I CONTINUED THAT IF AFTER REFLECTION HE APPROVED THE LOAN CONTAINING THE PROVISION FOR A MINIMUM, HE SHOULD THEN SERIOUSLY CONSIDER AUTHORIZING AT THE SAME TIME THE BANCO DE AGRICOLA TO RAISE ITS INTEREST RATE FROM EIGHT TO TEN PERCENT, AT LEAST FOR THOSE LOANS OVER RD\$2,000. I EXPLAINED THAT THE MINIMUM APPEARED TO BE AN IDB DEVICE WHEREBY IT COULD COMPLY WITH ITS OWN PROVISION THAT CREDIT LOANS BE MADE ONLY TO Viable INSTITUTIONS. SINCE LOANS FOR LESS THAN RD\$2,000 WERE COSTLY TO ADMINISTER, THE BANCO DE AGRICOLA REQUIRED GOVERNMENT SUBSIDY. HOWEVER, IF THE INTEREST RATE WERE RAISED TO TEN PERCENT, EVEN EXCLUDING THE LOANS OF LESS THAN RD\$2,000, WE ESTIMATED THAT THE AGRICULTURAL BANK WOULD RECEIVE PESOS 1.4 MILLION ADDITIONAL (SEVENTY MILLION PESOS ARE ESTIMATED TO BE ON LOAN TO CLIENTS WHO REQUIRED RD\$2,000 OR MORE). IF HE ADOPTED THIS COURSE, I CONCLUDED, IT APPEARED THAT TWO BENEFITS WOULD ACCRUE: FINANCIALLY, HE WOULD SAVE PESOS 1.4 MILLION IN SUBSIDY (ALWAYS A TELLING ARGUMENT WITH BALAGUER); POLITICALLY, HE WOULD DEMONSTRATE HIS CONTINUING INTEREST IN THE SMALL FARMER BY EXCLUDING THEM FROM THE INTEREST RATE INCREASE AND ALSO BE PLACED IN A POSITION TO STATE THAT HE HAD DECIDED THAT THE MORE PROSPEROUS WHO NEEDED LOANS GREATER THAN RD\$2,000 SHOULD SUBSIDIZE THE COST OF THE LOANS TO POORER FARMERS BY PAYING INCREASED INTEREST RATES.

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4. BALAGUER APPEARED QUITE TAKEN BY THE SUGGESTION TO INCREASE AGRICULTURAL BANK INTEREST RATES AND UNDERTOOK TO GIVE THE MATTER SERIOUS CONSIDERATION.

HURWITCH

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Message Attributes

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Decapton Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
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TAGS: PGOV, EAID, DR, (BALAGUER, JOAQUIN)
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